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SUBJECT: USITC CARRIBEAN BASIN INVESTMENT SURVEY

REF: SECSTATE 087702

1. Post submits the following report in response to reftel request for the U.S. International Trade Commission (USITC) report on the Caribbean Basin Economic Recovery Act (CBERA), as required by section 215(a) of the CBERA.

2. Summary: The positive role that the Caribbean Basin Initiative (CBI/CBERA/CBTPA) has played in the growth of the maquila industry in Honduras cannot be overstated. Under the CBI, Honduran suppliers using U.S. inputs receive preferential treatment to U.S. markets. Honduras is now the third largest provider in the world of textile and apparel products to the United States. This sector has grown into one of Honduras' most important industries, and last year accounted for greater earnings than the combined exports of Honduras' top eight export commodities (coffee, shrimp, bananas, gold, palm oil, melons, soap, and lobster). The industry is now counting on CAFTA to make the benefits from CBI/CBERA/CBTPA permanent and bring increased investment in the industry, and the Container Security Initiative to foster speed-to-market advantages for Honduran manufacturers.

3. The Honduran Manufacturer's Association remains publicly and privately optimistic regarding the future of the maquila industry in Honduras. The AHM estimates employment in the industry reached almost 131,000 in December 2004, up from 107,000 by the end of 2002. Over the last fifteen years, the industry has grown from just over 9,000 workers in 1990, to 102,000 in 1998, and the Association estimates that the industry will employ 136,000 by the end of 2005. However, in separate conversations, maquila owners and management expressed concerns over future growth prospects for the industry. Their predictions are clouded by fears of being unable to compete with China and other Asian producers, and increased regional competition as well. End Summary.

Impact of CBERA on Honduras: 2003-2004

4. The Honduran Manufacturers Association is an active industry advocacy group based in the North Coast city of San Pedro Sula and representing 280 export-oriented manufacturers (the vast majority being textile or apparel-related). According to AHM records, cumulative investment in the light manufacturing ("maquila") sector in 2004 totaled over USD 1.904 billion, with almost USD 1076.92 million in foreign investment. U.S. companies own 37 percent of the maquilas in Honduras. Honduran companies are the next largest owner with 30 percent of all operations, followed by companies from Korea (17 percent), Hong Kong (3 percent) and Taiwan and Canada (2 percent each). According to the AHM, new investment in the sector in 2003 and 2004 totaled USD 90.78 million and USD 100 million, respectively.

5. The Honduran Central Bank reports total inflows of USD 247.2 million into the country in 2003 and USD 293.0 million in 2004. An industrial breakdown from the Central Bank of the FDI inflows was unavailable as of date of cable submission. These figures represent FDI inflows, and do not account for any divestitures of foreign investment.

What companies make up the maquila industry?

6. In the chart below, the Central Bank counts all "maquila businesses" as belonging to one of four categories:

Category	# of Companies	Percent
Textile Industry	162	59.3%
Suppliers	46	16.9%
Services to		
Other Businesses	17	6.2%
Other Manufacturing		
Activities	48	17.6%
TOTAL	273	100.0%

7. The majority of maquila sector activity in Honduras is related to textile and apparel production: nearly 60 percent

of businesses are directly involved, and it is estimated a similar share of suppliers and service companies are as well.

18. To combat the increasing pressures from international competition within the textile industry, the AHM has focused on trying to diversify the maquila base out of textiles. The association notes that Honduras is the 4th largest producer in the world of wire harnesses for automobiles, and cites diversification successes such as computer parts manufacturers, tool manufacturers (for Sears) and automobile dashboard manufacturers.

Probable future effects of the CBERA/CBTPA: Industry Trends

19. Enactment of the CBI, and more recently, implementation of the Caribbean Basin Trade Partnership Act (CBTPA) in October 2000, have been welcomed by both the GOH and the Honduran maquila industry. Many industry officials have commented that the added benefits for Honduran suppliers under the CBTPA have increased business opportunity for the sector, and they look forward to these benefits being made permanent under CAFTA. No longer relegated to simple "cut and sew" operations, some maquilas have instituted "full package" regimes where they weave their own cloth, cut, and sew the fabric and then add value through printing or embroidering. There is a general consensus, both within the AHM and among individual firms, that the textile manufacturers most diversified into "full package" regimes are the ones best poised to compete with increasing Asian competition. Other "cut and sew" operations, producing t-shirts and other bulk, unspecialized products (and in particular local maquilas that depend on outsourcing orders from large, foreign-owned firms operating in Honduras), will have a difficult time competing.

110. In addition, the managers of two large maquilas told Post that while CAFTA will make Honduras more competitive vis a vis China, it could also create advantages for textile producers in Nicaragua, where rules of origin will be more flexible than for Honduras under CAFTA. Both have considered Nicaragua as a possible investment location, but have no current plans to relocate.

111.

112. In private conversations, various members of the maquila management community have been more pessimistic on employment trends and expressed concerns that in the longer term current growth is likely unsustainable. One large maquila owner in Tegucigalpa estimates that while total exports will likely stay constant or grow marginally over the next five years, employment in the sector will eventually decrease to perhaps 100,000. He estimates that he will be forced to lay off up to 50% of his workforce of 5000 by the end of 2010, as his company transitions from apparel to fabric production, which is more capital intensive and requires less labor input.

113. While the AHM has publicly blamed high-profile recent maquila closings on high energy costs, privately they commented that April and August are typically slower months and it is not unusual to see workers laid off for up to 90 days, which is legal under the Labor Law. In July, 2000 workers laid off from a San Pedro Sula company, Hamlet Manufacturing, demonstrated outside a major industrial park and demanded payment of benefits due to them from the company. The company has agreed to pay the unpaid benefits on August 19. At least 5 maquilas have been unable to pay workers their "fourteenth month," to which workers are legally entitled to under the Labor Law, and strikes have ensued. Overall, however, the number of distressed plants is relatively few. Minister of Labor German Leitzelar expressed frustration to Econoff recently with the public perception that the maquila sector is in decline. In fact, he said, while a few factories have closed, overall employment in the sector continues to grow.

114. To date, at least ten maquilas have laid off workers for up to 90 days, and there is speculation that after that period, at least a few will be forced to close on a permanent basis. Many of the firms that have had to resort to such layoffs, however, have fit the profile of "cut and sew" operations that depend heavily on orders from larger maquilas that need the additional capacity to meet orders. The local Chamber of Commerce and Industry of Cortes and other maquila owners have speculated that it is only a matter of time before these types of operations will be forced to diversify or close permanently. At the same time, with the passage of CAFTA and implementation of the Container Security Initiative, "full package" manufacturers should be better positioned to compete internationally.

2004 Investment in the Maquila Industry

15. According to the Honduran Manufacturer's Association (AHM), in 2004, 31 new maquilas opened and offered 5,761 new positions. Of those 31 companies, ten were U.S. companies. In that same year, 20 maquilas closed in Honduras, with a total loss of 8,800 jobs. Of the 20 maquilas, 6 were U.S. companies.

16. The following is a list of foreign firms that have invested in Honduras based in whole or in part on advantages provided by CBI. All new companies are located within Free Trade Zones. On average, for every dollar's worth of apparel that Honduras exports to the United States, 57 cents represents U.S. inputs (mostly the cloth or thread used to make the item, but also the machinery used in the factories, most of which is made in the U.S.). This investment is a direct result of the CBI benefits given to Honduras maquilas.

Company: Grand International Enterprise
Employees: 7
Origin: USA
Investment: Not provided
Product: Machinery and Supply Distributor

Company: Uniwear Embroidery
Employees: 141
Origin: Singapore
Investment: \$686,500

Company: S&S de Honduras
Employees: 61
Origin: USA
Investment: \$51,702
Products: Underwire Hook and Eye, Rings and Slides

Company: Manufacturas Industriales y Servicios
Employees: 64
Origin: Turkish
Investment: \$593,557
Product: Industrial Laundry and Pressing

Company: Manufacturas Universales
Employees: 20
Origin: Honduras
Investment: \$500,000
Product: Embroidery

Company: Cottonwise Apparel
Employees: 522
Origin: Korea
Investment: Not provided
Product: Fabric Producer

Company: Bollag International de Honduras
Employees: 76
Origin: USA
Investment: \$121,511
Product: Rags

Company: Novem Car Interior Design
Employees: 432
Origin: German
Investment: Not provided
Product: Car Interior Design

Company: Metric Products de Honduras
Employees: 75
Origin: USA
Investment: \$450,000
Product: Underwires and molded cups for bras

Company: Delta Cortes, SA
Employees: 735
Origin: USA
Investment: Not provided
Product: T-Shirts

Company: Diamante Apparel
Employees: 221
Origin: Hong Kong
Investment: \$150,000
Product: Pants, Sweatshirts, Shorts, T-shirts

Company: T.A. Apparel S.A. de C.V.
Employees: 624
Origin: Honduras
Investment: \$500,000
Product: Boxers, Sportswear, Casual wear (full package)

Company: Ceiba Industrial
Employees: 542
Origin: USA

Investment: Not provided
Product: Thermal Underwear, Sheets

Company: Kelly Hosiery de Honduras
Employees: 42
Origin: USA
Investment: \$500,000
Product: Textile for Socks (full package)

Company: Fasssi Equipment de Honduras
Employees: 3
Origin: Honduras
Investment: Not provided
Product: Equipment and Accessories for Dyeing

Company: Garmax of Cortes
Employees: 156
Origin: USA
Investment: Not provided
Product: Skirts, Pants, Jackets, Childrenswear

Company: Shing Sung Modas III
Employees: 604
Origin: Korea
Investment: \$436,500
Product: T-shirts, blouses, skirts, dresses, shorts

Company: Casa Diaz de Maquinas de Coser
Employees: 9
Origin: Mexico
Investment: Not provided
Product: Industrial Sewing Equipment

Company: Consolidados 807 de Honduras
Employees: 20
Origin: Honduras
Investment: Not provided
Product: Logistic services

Company: Reebok Central America
Employees: 6
Origin: Honduras
Investment: Not provided
Product: Contractors

Company: Ontex, SA
Employees: 300
Origin: Korea
Investment: Not provided
Product: Sweaters, Sweatpants, Shorts, T-shirts

Company: USA Knit Honduras
Employees: 151
Origin: USA
Investment: \$540,000
Product: Socks

Company: Sky Textile Honduras
Employees: 22
Origin: Honduras
Investment: Not provided
Product: Fabric Producer

Company: You and I, SA
Employees: 8
Origin: Honduras
Investment: Not provided
Product: Packaging

Company: Rex International Honduras
Employees: 24
Origin: Costa Rica
Investment: Not Provided
Product: Air Cargo Services

Company: Villanueva Textil
Employees: 492
Origin: Honduras
Investment: Not provided
Product: Brassieres, Panties

Company: Zona Libre America
Employees: 16
Origin: Honduras
Investment: Not provided

Company: Dong - A Honduras
Employees: 27
Origin: Korea
Investment: Not provided
Product: Screen Printing

Company: Xiong Tex S.A. de C.V.
Employees: 45
Origin: Honduras
Investment: \$250,000
Products: Jackets, Pants, T-Shirts, Shirts

Company: Cosmos 3 S de R.L.
Employees: 306
Origin: Korea
Investment: Not provided
Products: Multiple styles

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